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INFO RUCNCIS/CIS COLLECTIVE 1664  
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RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RUEHAD/AMEMBASSY ABU DHABI 0116  
RUEHBJ/AMEMBASSY BEIJING 1037  
RUEHKO/AMEMBASSY TOKYO 1740  
RUEHUL/AMEMBASSY SEOUL 0711  
RUEHDI/AMCONSUL DUBAI 0148  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
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RUEKJCS/SECDEF WASHDC 1138  
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SUBJECT: KAZAKHSTAN: CONOCOPHILLIPS SIGNS N BLOCK CONTRACT

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(C) 08 ASTANA 2465 (D) 08 ASTANA 1910

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (U) SUMMARY: On June 12, ConocoPhillips (Conoco) signed a contract to explore and develop the offshore N Block, expected to contain significant oil and gas deposits. Under the terms of the contract, which is consistent with a preliminary agreement reached on October 5, 2008, Conoco and UAE-based Mubadala Development Company will each own 24.5 percent of the project, while KazMunaiGas will own 51 percent. The N Block is located approximately 30 kilometers south-southwest of Aktau, in Mangistau oblast. The government lists its estimated recoverable reserves at 270 metric tons (2.13 billion barrels). Conoco committed to drilling three appraisal wells, the first in 2010, and expects to launch commercial production in 2019. END SUMMARY.

CONOCO COMMENTS ON THE DEAL

13. (SBU) Nick Olds, ConocoPhillips President for the Caspian Region, told Energy Officer on June 15 that Senior Vice President for International Operations Ryan Lance signed the N Block contract with KazMunaiGas (KMG) on June 12. Olds said the parties worked late into the evening to finalize contract details and commented that "everything went very well. All of the legal documentQare done. It's now official." As previousQ reported (reftel A), Conoco committed to drilling three wells, the first in 2010, and expects early oil by 2019. Ultimately, Olds said, the field will produce up to 500,000 barrels per day. He said that the new contract is a concession based on their previous Production Sharing Agreement and is not subject to the terms and conditions of the draft Subsoil Law (reftel D). However, the contract will be in compliance with the new Tax Code and will not be tax-stabilized.

14. (SBU) Olds said the hardest part of the negotiations, which

lasted for more than two years, was resolving legal liability issues related to pre-existing conditions on Soviet wells and a sunken, Soviet-era drilling rig located within the territory of the N Block.

Ultimately, according to Olds, Conoco was released from all liability for oil spills or repair work related to the Soviet well or sunken rig. Olds added that coming to commercial terms was also challenging. "We had some difficulty landing on a fair and equitable rate of return," he said, noting that Conoco and Mubadala will incur 100 percent of the risk and expense for exploring the reservoir, while KMG will own 51 percent of the operation. When asked what this deal means to ConocoPhillips, Olds answered, "Kazakhstan is a key growth area for our company and we see this deal as a way to piggyback on our investment in Kashagan and promote our long-term strategic interest in the region." Olds said the N Block was a very attractive asset sought after by many other major oil companies, including Shell, Total, BG Group, and Exxon.

15. (U) In a press release on June 12, Jim Mulva, Chairman and CEO of ConocoPhillips said, "ConocoPhillips is honored to participate in this world-class exploration project in Kazakhstan and we look forward to working with KazMunaiGas and Mubadala to develop the oil and gas resources in N Block." Khal-oon Khalifa Al Mubarak, CEO of Mubadala Development Company, released a statement on June 12 saying, "We are pleased to partner with KazMunaiGas and ConocoPhillips. The establishment of mutually beneficial partnerships remains a fundamental element of Mubadala's approach to business. Signing this agreement is another important step in realizing our strategy to become an active participant in the international upstream petroleum sector."

#### THE GOVERNMENT'S REACTION

16. (U) On June 12, Minister of Energy and Mineral Resources Sauat Mynbayev said on Kazakhstani television, "The point is that a license for oil exploration will be given to the oil consortium of

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the United Arab Emirates. The consortium will consist of ConocoPhillips and Mubadala Development companies. Bilateral talks have been held for a long time. Now, we have signed a document which will satisfy both sides."

17. (U) The President of KazMunaiGas (KMG), Kairgeldy Kabyldin, said in a press statement that, "The rise of our cooperation with ConocoPhillips and Mubadala to a new level indicates foreign investors' great interest in developing Kazakhstan's offshore fields in the Caspian and re-affirms the potential of our country's oil and gas sector. This project will enable us to use new technology and international expertise in developing offshore oil and gas resources of Kazakhstan."

18. (SBU) COMMENT: The N Block deal is significant for several reasons. First, of course, an American oil company was awarded a multi-million dollar investment deal to explore Kazakhstan's lucrative offshore territory, beating out rival bids from other majors. The N Block is also the first new contract signed since the government unofficially declared a moratorium on new deals in 2007. It therefore signals to international oil companies that Kazakhstan is back in business, and offshore areas are no longer off limits. It is also significant that the deal was signed before the draft Subsoil Law was ratified. If adopted, that law would separate contracts for exploration and production, which could mean that a company incurring the risk and cost of exploring a field may not be given the opportunity to produce the oil it discovers (reftel D). The contract nevertheless does signal the government's higher expectations and tougher conditions, particularly its lack of a tax stability clause and the willingness of international partners to pay 100 percent of the costs of exploration in exchange for a minority share in the production company. Finally, it is worth noting that Conoco's bid became attractive only after the company added the UAE's Mubadala Development Company as partners. END COMMENT.

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